

EXTERNAL AUDIT CIRCULAR No. 8



CONNECTICUT DEPARTMENT OF TRANSPORTATION

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SUBJECT: Meals, Lodging, and Incidental Expenses

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This Circular presents interpretative guidance regarding the treatment of meals, lodging, and incidental travel costs and includes examples for use in determining the allowability of such costs. Please refer to Chapter 8.26 of the 2010 edition of the AASHTO Uniform Audit & Accounting Guide for additional guidance.

I. ISSUE

During an indirect cost rate audit, auditors typically encounter costs for business meals, lodging, and incidental expenses that are either paid directly by a consulting firm or are paid by employees and subsequently are reimbursed by the firm. In either case, these costs may be included in the consultant's indirect costs.

Note: Special rules for meals, lodging, and incidental costs incurred at conferences, seminars, senior management meetings, and retreats are discussed separately in External Audit Circular No. 9.

II. ALLOWABILITY

Travel costs (including lodging, meals, and incidental expenses such as taxi fares and gratuities) incurred by a consultant's personnel while on official company business are allowable indirect costs, subject to the limitations prescribed by the Federal Acquisition Regulation (FAR) the Federal Travel Regulations (FTR).. For billing purposes, consultants may bill for meals and lodging not to exceed the Managers amounts contained in the State Of Connecticut Travel Regulations, which are incorporated into contracts let by CTDOT.

Also note that travel costs generally must be supported by documentation that includes the following information:

- (1) the date and place of the expenses,
- (2) purpose of the trip, and
- (3) name of person on the trip and that person's title or relationship to the consultant.

Additionally, CTDOT requires the consultant to maintain detailed source documentation that can be verified through the audit process. The specifics regarding this documentation are discussed below.

NOTE: All costs, regardless of whether they are billable, must be charged to the project that caused the expense to be incurred. By contrast, billings must be limited to actual, allowable costs. The difference between incurred and billed costs may represent a loss on the contract, and such loss may not be moved or shifted to another project or to overhead.

A. Meals

Travel-Status Requirement. Employees are considered to be in “travel status” when, in the performance of business-related activities, they are required to travel out of state from both their assigned duty location and personal residence. Travel status applies to each calendar day during which the employee is out of state.

Generally, only food purchased for the benefit of employees in travel status may be included in the indirect cost-rate computation—meal costs incurred outside of travel status must be excluded from indirect costs.

Meal costs incurred by the Consultant’s employees who are in official travel status are subject to Federal Travel Regulation, as follows:

- (a) For a full calendar day of travel (travel both preceded and followed by an overnight stay)—
 - Actual costs (including sales taxes and gratuities) are allowable up to the FTR CONUS amounts for meals and incidental expenses (M&IE) for the specific locality. FTR rates vary based on locality and are updated periodically by the General Services Administration (GSA).
 - Meal costs are allowable only when preceded by or followed by an overnight stay—meal costs incurred outside of travel status must be excluded from overhead.
 - Actual costs for alcohol and tobacco must be clearly segregated and removed from meal costs. If alcohol costs are commingled into an account that includes other, allowable costs, then the entire account balance may be disallowed.
 - (b) On the days of departure and return (partial travel days), the actual costs described above are allowable at a reduced rate of 75 percent of the applicable M&IE rate.
 - (c) Travel costs generally must be supported by adequate source documentation that includes the following information: (1) an itemized, detailed receipt from the vendor, (2) the date and place of the expenses, (3) purpose of the trip, (4) name of person on the trip and that person’s title or relationship to the consultant. Note that a summary credit card receipt or credit card statement is not adequate to support the allowability of claimed costs.
- Company policy on travel reimbursement meal rates and the documentation required governs. However, when receipts are required, allowable costs are limited to the lower of company policy or meal rates per the State of Connecticut Travel Regulations.

B. Lodging

Generally, only lodging costs incurred for the benefit of employees in travel status may be included in the overhead-rate computation. More specific guidance follows.

- Employees who travel out of state, or employees whose duty stations are outside of state, may claim actual lodging costs (not per diem rates), subject to the maximum amounts prescribed by the Federal Travel Regulations, plus taxes.
- Only lodging costs that are supported by adequate source documents may be included in indirect costs; accordingly, itemized hotel receipts must be maintained which contain sufficient information

to identify the occupant(s) of the room(s), the room cost, taxes, and incidental costs such as telephone calls.

- The cost of gratuities for porters, housekeeping, and taxi services are not allowable.
- Room charges for movies, alcohol, and other entertainment must be clearly segregated and removed from indirect costs. If these costs are commingled with lodging costs, then the whole lodging account may be disallowed.
- Room service charges and costs associated with meals eaten in a hotel restaurant or lounge are allowable, subject to the meal restrictions described above. However, meal costs must be segregated from lodging costs. The commingling of meal and lodging costs may lead to the disallowance of the entire lodging account.

C. Miscellaneous Transportation Expenses

State Of Connecticut Travel Regulations authorizes reimbursement for parking charges, road tolls, and other reasonably incurred transportation expenses directly related to business travel. Receipts are required, in accordance with company policy, for all miscellaneous transportation expenses.

III. EXAMPLES

Background: *Firm XYZ* has offices in Connecticut, Rhode Island and Massachusetts. The firm's headquarters is located in Hartford, Connecticut. The company's policy allows employees a \$120 per diem while traveling, of which \$85 is for lodging and \$35 is for meals. Employee Smith works in Hartford, Connecticut. Employee Jones works in Boston, Massachusetts.

Example 8-1. On October 15, 2009, *Firm XYZ* employees Smith and Jones left their respective offices at 7 AM and traveled to Stamford, Connecticut for work assignments. They stayed overnight in separate rooms at the same hotel. The bill for each hotel room was \$86.40, which consisted of an \$80 room charge, and \$6.40 state sales tax. Additionally, Smith and Jones each spent \$8 on breakfast, \$12 on lunch, and \$24 for dinner—a total of \$44 each for the day, excluding taxes and gratuities. Each employee purchased \$5 worth of alcoholic beverages as part of their respective \$24 dinner costs. They ate dinner in the hotel's restaurant and charged their meals to their rooms.

Analysis—Smith: Since Smith works in Connecticut, his costs in accordance with the State Of Connecticut Travel Regulations are not allowable since in state travel is not reimbursable to the employee.

Analysis—Jones: Jones works outside of Connecticut and therefore is governed by the State Of Connecticut Travel Regulations. The maximum State rate for meals and incidental expenses was \$49 [\$10-Breakfast, \$14-Lunch and \$25-Dinner] plus tax and gratuity as of the travel date; therefore, *Firm XYZ* may charge \$8-B, \$12-L and \$19-D [total of \$39] plus tax and 15% maximum gratuity of the meal cost to indirect costs. Note: If Jones had purchased no alcohol, then the full \$44 cost would be allowable. Hotel charges would be eligible since less than the Company policy. Note: Contractual language and/or comparison with the Federal Travel Regulations for reasonableness would also be part of the analysis.

Example 8-2. Assume that when Smith and Jones submitted their expense reports, *Firm XYZ's* bookkeeper charged all the costs to *Account No. 558–Indirect Lodging*.

Analysis: This is an incorrect treatment; instead, the lodging and meal costs described above must be

recorded in separate accounts in *Firm XYZ's* accounting system, regardless of whether the meals were included as room charges. Meal and lodging costs that are improperly commingled into a single account may result in the disallowance of the entire account balance.

IV. REFERENCES

- FAR 31.205-46 (Travel Costs).
- FAR 31.205-51 (Costs of Alcoholic Beverages).
- FAR 31.205-14 (Entertainment Costs).
- State Of Connecticut Travel Regulations (establishes maximum allowable rates for meals and lodging; incorporated into all contracts between CTDOT and consultants).
- Federal Travel Regulations.
- CTDOT External Audit Circular No. 1 (definitions, audit authority, and general guidance regarding the computation of indirect cost rates).
- See also CTDOT External Audit Circular No. 9 (special rules for meal, lodging, and incidental costs incurred at conferences, seminars, senior management meetings, and retreats).